

# R.J. REYNOLDS

Tobacco Company

October 6, 1997

DAVID W. KEENEY  
Key Account Manager

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Mr. Greg Young, VP  
Penn Traffic Co.  
PO Box 4965  
Syracuse, NY 13221

Re: Cigarette Category

Dear Greg:

I feel it necessary to communicate to you the issues that exist within your Cigarette Category.

Since the establishment of the Category Management teams in June, the following issues have been raised with varying levels of action:

- ① Initial meeting with Dan Bain in June:
  - Category Objectives.
  - Chain-wide Legend Agreement expiration.
  - Bilo/Big Bear merchandising contract expiration.
  - P & C/Quality/Insalaco lack of merchandising contract since 12/96.
  - Pricing (Price Reductions).

The main purpose of this initial meeting was to attempt to determine what objectives Penn Traffic has for the Cigarette Category, and to detail pending issues. Although it was determined that Category Objectives had not yet been established, I do feel a sense of urgency was communicated to Mr. Bain relative to maintaining your business, through price promotion and protection against activity being implemented in the Marketplace. At this point, I was instructed by Mr. Bain to propose Red Tag promotions, and to submit them to him for implementation. We then scheduled our second meeting to discuss the issues more in depth.

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- ② In our second meeting in July, Dan and I developed preliminary action plans for dealing with each issue on a priority basis. At this meeting, I presented Dan with a Red Tag proposal on Winston and Legend. I also made a general proposal to commit merchandising dollars to commence August 1st for each branch of the chain. We then made an appointment for our third meeting.
- ③ Upon arrival for our third meeting, I was informed that Dave Grabosky would be taking Dan's appointment with me. Mr. Grabosky informed me that Frank Winker would be taking over the contract negotiations. Dave and I discussed the importance of the proposed Red Tag; however, he advised me to continue to communicate with Dan.
- ④ I then had several meetings with Frank Winker relative to the Private Label extension and the Merchandising contracts. As you are aware, Frank and I executed both agreements. The Private Label has been extended for 3 years with cancellation clauses, and the Merchandising contract was implemented for a five-month period beginning 9/97.
- ⑤ Between meetings with Frank, I submitted another Red Tag proposal to Dave Grabosky (approx. 8/15). This submission included Winston, Salem, Doral, and Legend. We discussed the importance of rebuilding RJR volume and share, as both would predicate the ability to negotiate a contract for 1998 and beyond. We also discussed the necessity of extending the Red Tag to pack sales versus solely carton sales, which has been P & C's policy in the past. Previously, both Bilo and Big Bear have run price off promotions for both packs and cartons on a quarterly basis. These promotions were able to be implemented in most cases over the phone. To date, no Red Tag has been implemented.

My communication with you in the form of this letter is to reinforce my level of commitment to build a Partnership between RJR and Penn Traffic. Further, my commitment to Penn Traffic is to utilize all available resources to position your chain to be competitive in the Marketplace. As your Category Advisor, I will provide the proper analyzation of market trends, combined with both offensive and defensive programs to ensure maximum attainment of sales and profit dollars.

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As you know, a true Partnership must have a level of commitment with set expectations from both parties. I look forward to a meeting with you and whomever else you deem appropriate, to determine Penn Traffic's Category Objectives, and to detail the expectations you and I have of our Partnership, both now and in the future.

Please contact me at your earliest convenience to schedule this meeting.

Sincerely,

Dave

D.W. Keeney

Key Account Manager

DWK/jb

cc: B. Roth - RJR

D. Bain

D. Grabosky

F. Winker

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